January 02, 2023

Krsnaa Diagnostics Limited: Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based – Term Loan	22.00	21.60	[ICRA]A(Stable); reaffirmed
Short-term – Fund-based – Cash Credit	30.00	35.00	[ICRA]A1; reaffirmed/assigned
Short-term – Non-fund Based – Bank Guarantee	33.00	58.40	
Total	**85.00**	**115.00**	

**Instrument details are provided in Annexure I*

Rationale

The reaffirmation of ratings considers Krsnaa Diagnostic Limited's (KDL/ the company) established market position in the public-private partnership (PPP) diagnostic services segment and extensive experience of the promoter in the healthcare industry. The ratings also factor in KDL's healthy bid-win ratio for Government tenders. Coupled with the long contract tenor of 3-12 years (including renewal clauses) and captive patient footfalls (from the partnered hospitals), this ensures strong revenue visibility for the company. Further, ICRA notes that the company is expanding its geographical presence with new contract wins in Punjab, Himachal Pradesh, Uttar Pradesh, Maharashtra, Tripura, Chandigarh, Rajasthan and Delhi. The ratings consider KDL's strong financial risk profile characterised by healthy operating profit margins coupled with negative net debt position. The operating profit margins (OPM) expanded to 28.9% in FY2022 backed by increase in scale of operations in its core business (radiology and pathology). While the margins contracted during H1 FY2023 to 24.8% due to deferred ramp-up in operations in one of its contracts, the margins continue to remain healthy. The company continues to enjoy a net debt negative position backed by strong cash and liquid investments of ~Rs. 280 crore as on September 30, 2022.

The ratings also consider the capital intensive nature of KDL's operations with capex plans of over Rs. 100.0 crore in FY2023 for setting up new centres. However, KDL is also exploring asset-light expansion (pay-per-use or deferred credit from original equipment manufacturers) over the near to medium term. Going forward, the company is estimated to incur capex to expand its footprint based on the receipt and successful execution of new contracts. This continues to cap the return on capital employed (RoCE[1]; 17.5% in FY2022 and 11.3% in H1 FY2023) for the company to a certain extent. Against this backdrop, the ramp-up of operations in the new centres shall remain a key monitorable. The ratings also consider KDL's high debtor days with ~70% of its debtors being receivables from various Government entities. The debtor days improved to 46 days as of March 31, 2022, from 69 days as of March 31, 2021, backed by improved collection from Government debtors. However, its debtor holding period remained at 88 days as of September 30, 2022, in line with the cyclical trend in Government receivables witnessed during the fiscal. The ratings also factor in the competition from regional and established players; however, KDL's established position in the PPP segment mitigates the competitive pressure to a certain extent. Any sizeable acquisitions or material increase in the capex shall remain an event risk and will be evaluated on a case-by-case basis.

The Stable outlook on the long-term rating reflects ICRA's expectation that the company will continue to benefit from its strong market position in the PPP segment and its strong financial profile.

[1] *Adjusting the fair value gain / (loss) and corresponding deferred tax impact*

Key rating drivers and their description

Credit strengths

Established market position in PPP diagnostic segment and extensive experience of promoter – KDL's promoter has over 10 years of experience in the healthcare-diagnostics industry. The company has an established market position in the PPP segment with over 2,020 diagnostic centres across 15 states and two union territories (UT; Delhi and Chandigarh) in India. KDL also has tie-ups with private hospitals and operates 27 centres under this segment (as on September 30, 2022). It has also been awarded seven new PPP contracts post Q3 FY2022. The strong market position in the PPP segment with gradual addition of new centres is expected to support KDL's business prospects, going forward.

Strong financial profile characterised by healthy operating profit margins and debt coverage metrics – The company witnessed healthy YoY revenue growth of 14.9% in FY2022, on the back of 70% growth in core business revenues (radiology as well as pathology), despite de-growth of 78% in Covid-19 revenues. While there was slight overall de-growth of 2% in H1 FY2023 due to dip in Covid-19 revenues, the core business witnessed 14.7% YoY growth in revenues (backed by improved test volumes). OPM improved to 28.9% in FY2022 from 23.8% in FY2021, backed by significant improvement in the core business. During H1 FY2023, additional manpower costs for the newly launched centres (which is yet to fully ramp-up) led to contraction in OPM, while remaining healthy at 24.8%. The equity infusion of Rs. 400.0 crore (IPO proceeds) and subsequent reduction of debt to the extent of Rs. 177.9 crore improved the debt metrics in FY2022. The gearing (Total Debt/Tangible Net Worth) and coverage metrics (Total Debt/OPBDITA) improved to 0.1x and 0.7x, respectively, as on September 30, 2022 (against 1.1x and 2.6x, respectively, as on March 31, 2021). In addition, the company had cash and liquid investments of ~Rs. 280 crore as on September 30, 2022. The financial profile is expected to remain strong in the near term with healthy revenue growth and expansion in OPM (backed by scale up of operations in the newly launched centres, thereby generating operating leverage) and negative net debt position.

Healthy bid-win ratio in the PPP segment; longer tenor contracts with annual price escalations – As on September 30, 2022, the company had over 45 active PPP contracts, with the contract tenor ranging between 3-12 years (including renewal clauses). Additionally, the PPP contracts have an embedded price escalation clause (mandating yearly price increases of 2-7%), which is expected to support the realisation levels, going forward. The company witnessed a healthy bid-win ratio of ~78% in the past four years and the same is expected to remain healthy going forward as well, backed by its strong market position. Coupled with captive customer base from hospitals, this ensures revenue visibility for the company in the medium term.

Diversification of geographical presence with newly awarded contracts – The company operates 2,047 diagnostic centres across 15 states and two UT in India, with ~60% of its revenues coming in from western India. With new centres in Punjab, Himachal Pradesh, Uttar Pradesh, Maharashtra, Tripura, Chandigarh, Rajasthan and Delhi expected to generate revenue from FY2023-FY2024, the geographical diversification is expected to improve, going forward.

Credit challenges

Capital intensive nature of operations with sizeable expansion plans – The company's capital-intensive nature of operations (sizeable outlay towards setting up new radiology centres) has led to low RoCE levels over the years (13.6% in FY2021, 17.5% in FY2022 and 11.3% in H1 FY2023). The company is expected to incur capex of over Rs. 100.0 crore in FY2023. However, KDL is also exploring asset-light expansion. Further capex shall be based on new contract wins backed by its established track record with healthy bid-win ratio. Consequently, the ramp-up of operations in the new centres shall remain a key monitorable for improvement in RoCE levels. Although the capex is relatively high, ICRA draws comfort from the anticipated healthy accruals from the business over the medium term.

High debtor collection cycle due to Government receivables – The company derives ~73% of its revenues (FY2022) from the PPP segment. As payment timelines of Government receivables tend to be higher, KDL's debtors holding period remained at ~88 days as of September 30, 2022. ICRA notes that this is higher than other players in the industry who derive most of their revenues from retail (B2C) and private (B2B) businesses.

Fragmented industry with competition from national and regional players – The diagnostics industry is highly fragmented with standalone centres, established regional and national players. In terms of the PPP segment, the company faces competition from regional as well as national players. However, given the established market position of the company with a robust track record and a healthy bid-win ratio, the competitive pressure is mitigated to a certain extent.

Environmental And Social Risks

Environmental considerations: The company does not face any major physical climate risk. However, it is exposed to environmental laws and regulations pertaining to handling, transportation and disposal of medical specimens, infectious and hazardous waste along with radioactive exposure during imaging procedures. This requires investments in infrastructure to handle the generated waste. Accordingly, KDL have a moderate exposure to environmental risks. However, the company has taken necessary precautions and procedures like protective clothing and equipment, training, laboratory design, housekeeping and hygiene practices along with restricting unauthorised persons from accessing or being exposed to radioactive and other dangerous materials.

Social considerations: Exposure to social risks is moderate for KDL. Social risks include litigation exposure, and compliance standard requirements given the importance of the service being provided. Further, regulatory interventions such as price control measures, if any, specifically levied could impact the earnings of the company and broader industry.

Liquidity position: Strong

KDL's liquidity profile is strong characterised by cash and liquid investments of ~Rs. 280 crore. Of the available liquidity as on September 30, 2022, ~Rs. 134.0 crore would be utilised towards general corporate purposes and capex for setting up new diagnostic centres (as per the objects of the IPO). The average working capital utilisation remained at ~58% over the past 12 months ending September 2022. The company has moderately low debt repayment obligations of Rs. 2.8 crore in H2 FY2023 and Rs. 5.5 crore per annum for FY2024 and FY2025, which are expected to be met out of cash accruals. Going forward, ICRA believes that KDL's capex requirements will be met from its existing cash reserves and internal accruals. Overall, ICRA expects the company to service its repayment obligations and capital commitments from the available liquidity buffer and internal cash accruals.

Rating sensitivities

Positive factors – ICRA could upgrade the ratings in case of sizeable increase in revenues and profitability (RoCE) while maintaining the debt coverage metrics on a sustained basis. Specific trigger for a rating upgrade could be RoCE greater than 18.0% on a sustained basis.

Negative factors – Pressure could arise from deterioration in revenue, margins, working capital intensity or increase in leverage position. Specific trigger for a rating downgrade could be Net debt / OPBIDTA more than 2.0x on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Diagnostic Service Providers
Parent/Group Support	NA
Consolidation/Standalone	ICRA has considered the consolidated financials of KDL, along with its subsidiaries for arriving at the ratings.

About the company

Originally incorporated as ‘Krsna Diagnostics Private Limited’ in December 2010, the company was renamed as ‘Krsnaa Diagnostics Private Limited’ in 2015. Pursuant to a special resolution passed in the EGM held on April 25, 2021, the company was converted into the public limited company, ‘Krsnaa Diagnostics Limited’.

KDL is a differentiated diagnostic service provider in India. It provides a range of technology-enabled diagnostic services such as imaging (including radiology), pathology/clinical laboratory and tele-radiology services to public and private hospitals, medical colleges and community health centres across India.

The company operates a teleradiology hub in Pune with a team of over 200 radiologists. This addresses the shortage of full-time doctors and staff in the diagnostic industry, and considerably increases the turnaround time for diagnostic test reports. In addition, it also allows KDL to serve patients in remote locations where diagnostic facilities are limited.

Key financial indicators

KDL Consolidated	FY2021 Audited	FY2022 Audited	H1 FY2023*
Operating income (Rs. crore)	396.5	455.5	235.8
PAT (Rs. crore)	184.9	68.4	29.6
OPBDITA/OI (%)	23.8%	28.9%	24.8%
PAT/OI (%)	46.6%	15.0%	12.5%
Total outside liabilities/Tangible net worth (times)	1.6	0.3	0.3
Total debt/OPBDITA (times)	2.6	0.5	0.7
Interest coverage (times)	3.6	7.1	18.3

*PAT: Profit after Tax; OPBDITA: Operating Profit before Depreciation, Interest, Taxes and Amortisation; *Provisional*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2023)					Chronology of rating history for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount outstanding as of Sep 30, 2022 (Rs. crore)	Date & Rating in FY2023		Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					Jan 02, 2023	Aug 10, 2022	Jan 14, 2022	-	-
1	**Fund Based Term loan**	Long-term	21.60	19.3	**[ICRA]A (Stable)**	**[ICRA]A (Stable)**	**[ICRA]A (Stable)**	-	-
2	**Fund based - Cash credit**	Short-term	35.00	--	**[ICRA]A1**	**[ICRA]A1**	**[ICRA]A1**	-	-
3	**Non-fund based – Bank Guarantee**	Short-term	58.40	--	**[ICRA]A1**	**[ICRA]A1**	**[ICRA]A1**	-	-

Amount in Rs. Crore

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long Term - Fund-Based - Term Loan	Simple
Short Term - Fund based - Cash Credit	Simple

Short Term - Non-fund based - Bank Guarantee	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN No	Instrument Name	Date of Issuance	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Long Term - Fund-Based - Term Loan**	Jan 2021	7.75%	FY2027	21.60	[ICRA]A (Stable)
NA	**Short Term - Fund based - Cash Credit**	-	7.40%-7.75%	-	35.00	[ICRA]A1
NA	**Short Term - Non-fund based - Bank Guarantee**	-	3.00%	-	58.40	[ICRA]A1

Source: Company; Note: Amounts in Rs. crore

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis

Company Name	KDL Ownership	Consolidation Approach
KDPL Diagnostics (Amritsar) Private Limited	99.99%	Full Consolidation
KDPL Diagnostics (Bathinda) Private Limited	99.99%	Full Consolidation
KDPL Diagnostics (Jalandhar) Private Limited	99.99%	Full Consolidation
KDPL Diagnostics (Ludhiana) Private Limited	99.99%	Full Consolidation
KDPL Diagnostics (Patiala) Private Limited	99.99%	Full Consolidation
KDPL Diagnostics (SAS Nagar) Private Limited	99.99%	Full Consolidation
Krsnaa Diagnostics (Mohali) Private Limited	99.99%	Full Consolidation

Source: company annual report FY2022

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About ICRA Limited:

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